

House Study Bill 272

HOUSE FILE _____
BY (PROPOSED COMMITTEE ON
WAYS AND MEANS BILL BY
CHAIRPERSON VAN FOSSEN)

Passed House, Date _____ Passed Senate, Date _____
Vote: Ayes _____ Nays _____ Vote: Ayes _____ Nays _____
Approved _____

A BILL FOR

1 An Act relating to the gradual repeal of the state franchise tax
2 and providing effective and applicability dates.
3 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:
4 TLSB 3062YC 80
5 mg/pj/5

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1 1 Section 1. Section 422.60, subsection 1, Code 2003, is
2 amended to read as follows:
3 1. A franchise tax according to and measured by net income
4 is imposed on financial institutions for the privilege of
5 doing business in this state as financial institutions for
6 taxable years beginning before January 1, 2008.

1 7 Sec. 2. Section 422.60, subsection 2, unnumbered paragraph
1 8 1, Code 2003, is amended to read as follows:
1 9 In addition to all taxes imposed under this division, there
1 10 is imposed upon each financial institution doing business
1 11 within the state for taxable years beginning before January 1,
1 12 2008, the greater of the tax determined in section 422.63 or

1 13 the state alternative minimum tax equal to sixty percent of
1 14 the maximum state franchise tax rate, rounded to the nearest
1 15 one-tenth of one percent, of the state alternative minimum
1 16 taxable income of the taxpayer computed under this subsection.

1 17 Sec. 3. Section 422.63, Code 2003, is amended to read as
1 18 follows:

1 19 422.63 AMOUNT OF TAX.

1 20 The franchise tax is imposed annually in an amount equal to
1 21 five the applicable percent of the net income received or
1 22 accrued during the taxable year. If the net income of the
1 23 financial institution is derived from its business carried on
1 24 entirely within the state, the tax shall be imposed on the
1 25 entire net income, but if the business is carried on partly
1 26 within and partly without the state, the portion of net income
1 27 reasonably attributable to the business within the state shall
1 28 be specifically allocated or equitably apportioned within and
1 29 without the state under rules of the director.

1 30 The "applicable percent" is equal to the following:

1 31 1. For taxable years beginning before the 2004 calendar
1 32 year, five percent.

1 33 2. For taxable years beginning in the 2004 calendar year,
1 34 four percent.

1 35 3. For taxable years beginning in the 2005 calendar year,
2 1 three percent.

2 2 4. For taxable years beginning in the 2006 calendar year,
2 3 two percent.

2 4 5. For taxable years beginning in the 2007 calendar year,
2 5 one percent.

2 6 6. For taxable years beginning in the 2008 and subsequent
2 7 calendar years, zero percent.

2 8 Sec. 4. NEW SECTION. 422.86A ESTIMATED FRANCHISE TAX ==
2 9 ALTERNATIVE.

2 10 1. A taxpayer subject to the franchise tax imposed under
2 11 section 422.60 whose franchise tax liability for the preceding
2 12 taxable year was one thousand dollars or more shall remit on
2 13 or before the last day of the fifth month of the taxable year
2 14 an estimated tax equal to one-half of the franchise tax
2 15 liability for the preceding tax year.

2 16 2. In addition to the estimated tax due in subsection 1,
2 17 the taxpayer shall remit on or before the last day of the
2 18 sixth month of the taxable year an additional estimated tax
2 19 equal to the following percent of the franchise tax liability
2 20 for the preceding taxable year as follows:

2 21 a. For the taxable years beginning in the 2003 and 2004
2 22 calendar years, eleven percent.

2 23 b. For the taxable year beginning in the 2005 calendar
2 24 year, twenty-six percent.
2 25 c. For the taxable years beginning in the 2006 and
2 26 subsequent calendar years, fifty percent.
2 27 3. The estimated tax in this section is an alternative
2 28 estimated tax to that payable pursuant to section 422.86, if
2 29 at the time the estimated tax under this section is due and
2 30 payable it exceeds the estimated tax due and payable pursuant
2 31 to section 422.86.

2 32 Sec. 5. Sections 405A.10, 422.60 through 422.66, and
2 33 422.86A, Code 2003, are repealed.

2 34 Sec. 6. EFFECTIVE AND APPLICABILITY DATES.

2 35 1. Sections 1 through 4 of this Act, being deemed of
3 1 immediate importance, take effect upon enactment and apply
3 2 retroactively to January 1, 2003, for taxable years beginning
3 3 on or after that date.

3 4 2. Section 5 of this Act takes effect January 1, 2008, for
3 5 taxable years beginning on or after that date.

3 6 EXPLANATION

3 7 This bill phases out beginning with the 2004 taxable year
3 8 the 5 percent franchise tax on financial institutions by 1
3 9 percentage point a year over five years. The bill also
3 10 provides an alternative estimated tax to be paid based upon
3 11 the previous year's franchise tax liability. This alternative
3 12 estimated tax is payable if at the time it is due it exceeds
3 13 the estimated tax which is in current law and is based on the
3 14 estimated tax for the current taxable year. These provisions
3 15 of the bill take effect upon enactment and apply retroactively
3 16 to tax years beginning on or after January 1, 2003.

3 17 The bill also repeals the Code provisions related to the
3 18 franchise tax effective January 1, 2008, for tax years
3 19 beginning on or after that date.

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